SENATE BILL 681:
Rural Health Care Stabilization Act.

2019-2020 General Assembly

Committee:	Senate Finance. If favorable, re-refer to Rules and Operations of the Senate	**Date:**	June 25, 2019
Introduced by:	Sens. Berger, Tillman	**Prepared by:**	Cindy Avrette Staff Attorney
Analysis of:	PCS to Filed Edition S681-CSRB-12		

OVERVIEW: Senate Bill 681 would create a nonreverting revolving fund that would be administered by UNC Health Care to provide low-interest loans for the support of hospitals located in rural areas that are in financial crisis. The budget conference report would appropriate $13,397,000 to the fund in FY19-20 and $6,603,000 to the fund in FY20-21.[1]

The proposed Senate committee substitute would make changes to the application process as recommended by the Local Government Commission (LGC). Under the PCS, an applicant would apply for a loan through UNC Health Care and, as part of the application process, provide a hospital stabilization plan (Plan). The LGC's role would be to either approve or disapprove the loan, based on an assessment of the applicant's Plan by UNC Health Care and other information the LGC may believe to have a bearing on whether the loan should be approved.

BACKGROUND: The number of rural hospitals struggling with financial sustainability has increased nationally over the past 10 years. The University of North Carolina's Rural Health Research Program tracks closure of rural hospitals across the country. From 2010-2018, there were five rural hospital closures in North Carolina. From 2005-2016, there were 18 rural hospital mergers in North Carolina.

This trend is expected to continue. A number of factors contribute to rural hospital financial distress, including demographics, hospital finances, and overall changes in how health care is delivered. Evidence from a variety of research indicates closure of rural hospitals reduce local residents' access to emergency care, lead to outmigration of healthcare providers and the economic cost associated with it, and an exacerbation of access to specialty care.

There does not appear to be a panacea for the sustainability of rural hospitals. Many factors may be involved, from changes to corporate structure to new models of payment and financing, from mergers or acquisitions to new models of health care delivery. It may require governmental support and assistance as well as regional planning efforts. States have taken different approaches to the issue. New Jersey enacted a *Health Care Stabilization Act* that established an early warning system to monitor financial indicators and provide emergency grants to maintain access to essential healthcare services for communities facing hospital closure due to financial distress. South Carolina enacted a *Rural Hospital Transformation Program* to help pay for up to 25% of the capital cost associated with mergers between rural hospitals. Mississippi enacted *Mississippi Rural Hospital Transition and Improvement Grant Program* to address rural funding sustainability and address hospital efficiency and viability.

[1] See Page I-6 of the Joint Conference Committee Report for HB 966.

BILL ANALYSIS: The proposed Senate committee substitute for Senate Bill 681 would enact a *Rural Health Care Stabilization Program.* The purpose of the Program would be to provide below-market interest-rate loans for the support of hospitals located in rural areas that are in financial crisis due to operation of oversized and outdated facilities and recent changes to the viability of health care delivery in their communities, including the demand for certain patient services and the composition of payer mixes and patient populations. The purpose of the loan would be to help these financially distressed hospitals transition to sustainable, efficient, and more proportionately sized health care service models in their communities. Loan funds could be used to finance construction of new health care facilities or to provide for operational costs during the transition period, or both.

The loan program process would be as follows:

- UNC Health Care would administer the loan program. UNC Health Care cannot apply for a loan, cannot be a partner in a partnership that applies for a loan, and cannot directly and materially benefit from a loan at the time the application and Plan are submitted.
- The applicant for a loan must be a nonprofit agency, a public agency, or a partnership created by one or more of these entities.
- The application must be submitted on behalf of a hospital that meets both of the following conditions:
    - Is located in a tier one or tier two development area.
    - Is unable to sustain operations for more than three years from the date of application for a loan under the Program.
- The application is first submitted to UNC Health Care for evaluation to determine if the applicant demonstrates a financially sustainable health care service model for the community in which the hospital is located.
- As part of the application process, an applicant must submit a hospital stabilization plan (Plan) that includes, at a minimum, any proposed changes in governance or ownership of the hospital and the hospital's financial projections. UNC Health Care may assist the applicant with revisions to its Plan.
- Based on its evaluation of the loan application and Plan, UNC Health Care would recommend approval or disapproval of the loan to the LGC, as well as the terms of the loan.
- An award of a loan may not be made under the Program unless the LGC approves it.
- The LGC would review UNC Health Care's recommendation, an applicant's Plan, and any other information it may believe to have a bearing on whether the loan should be approved. Its consideration process would be substantially similar to the consideration process the LGC uses to assess the feasibility of local financing agreements.
- If UNC Health Care recommends disapproval of a loan application, the applicant may engage a disinterested and qualified third party approved by the LGC to evaluate its application and Plan. The LGC could consider the third party's evaluation.
- If the LGC enters an order denying the loan, the proceedings under this Article end.
- If the LGC enters an order approving the loan, UNC Health Care will execute the terms of the loan agreement. The terms of the loan agreement may include changes to the governance structure of

the hospital. The interest rate must be below the market rate, and the maximum maturity for the loan is seven years.

- UNC Health Care must report annually on the Rural Health Care Stabilization Fund to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division.

EFFECTIVE DATE: The bill becomes effective July 1, 2019.